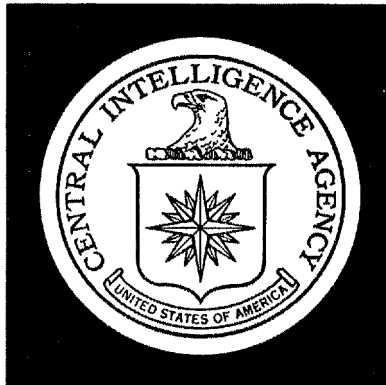


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MEMORANDUM

Special Assessments on the Middle East Situation

ECONOMIC COSTS TO THE USSR OF THE MIDDLE EAST CRISIS

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20 June 1967

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CENTRAL INTELLIGENCE AGENCY
20 June 1967

Economic Costs to the USSR of the Middle East Crisis

Summary

The main cost to the USSR of the Middle East crisis so far is that for military aid, notably an estimated \$40 to \$60 million worth of aircraft and tanks delivered to Egypt and Algeria. Further deliveries to Arab countries are expected. The airlift of military items has cost an estimated \$3 million to date.

A Soviet effort to replace all the military equipment lost by the Arab countries could cost as much as \$400 to \$500 million.

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The USSR may find it politically expedient to provide emergency economic aid during the next several months. It may also be asked to defer scheduled payments on economic and military debt.

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The closure of the Suez Canal increases the average transit time for Soviet seaborne trade with countries east of Suez by about 75 percent and will cost the USSR an estimated \$11 million monthly. The longer voyage around Africa will disrupt Soviet shipping schedules, requiring an additional 16 days (for example) for the trip from Black Sea ports to North Vietnam.

Military Aid

1. The crisis in the Middle East already has led to substantial military aid costs for the USSR. [REDACTED]

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2. Further deliveries of military equipment to the Arab countries seem likely. Replacement of all the Arab aircraft and tanks believed to have been destroyed or captured by Israel would raise the total cost to as much as \$400 to \$500 million, compared with total Soviet military deliveries to Arab countries of \$2 billion since 1955. Replacements would be needed for about 425 aircraft (including 140 MIG-21s) and 650 tanks (mostly T-54 and T-34 medium tanks). Besides aircraft and armor, the Arab countries apparently lost hundreds of artillery pieces and vehicles plus undetermined quantities of other equipment including a part of Egypt's SAM system.

Economic Aid

3. The crisis may well lead to demands on the USSR for emergency economic aid. The USSR probably would respond positively to such requests, but it is difficult to estimate how large they might be. Much would depend on how long the Suez Canal is closed and the production and distribution of oil is disrupted. Egypt will lose an

estimated \$30 million monthly in foreign exchange so long as the canal is closed, the Sinai oil-fields remain under Israeli control, and the atmosphere is unfavorable for tourism. It can ill afford such a loss, since it has almost no reserves of foreign exchange. Iraq will suffer the loss of about \$25 million each month in oil revenues and operating expenditures while the IPC pipeline remains closed. Other countries are suffering less economic dislocation from the crisis and have less reason to ask the Soviets for aid.

4. Even if the USSR made up only a fraction of these losses, the cost could easily amount to several million dollars a month. At the same time, disruption of the Arab economies probably would have some offsetting effect on Soviet aid costs by slowing down deliveries of project aid. In any case, a stepped-up program of economic aid to Arab countries would not be an onerous burden for the Soviet economy. Deliveries under the over-all aid program have been claiming only a small fraction of one percent of the Soviet gross national product.

Concessions on Payments Due on Earlier Aid

5. Deferment of payments on aid previously received could involve sizable costs for the USSR.

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6. It would not be surprising if the Arabs sought a write-off of a part of the military debts corresponding to the share of their Soviet equipment that was lost in the war.

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Costs of Closure of the Suez Canal

7. About 10 million tons of Soviet seaborne trade, or 10 percent of the Soviet total, transits the Suez Canal each year. Exports, mostly of petroleum products, account for 9 million tons, and imports for one million tons. Japan is the largest

single trading partner for Soviet goods moving through the canal. Rerouting present Soviet seaborne trade with countries east of Suez would increase the average transit time by about 75 percent (from 24 days to 41 days in the case of Japan) and the cost of transportation by some \$3 million a month, even without allowing for an increase in charter rates.

8. The closure of the Suez Canal has already driven up ship chartering rates world-wide. Tanker rates have increased by 300 percent and some dry cargo rates by 100 percent. About 50 percent of Soviet seaborne foreign trade moves on chartered ships, and the Soviets--or their trading partners--will have to pay the increased rates for newly chartered ships, including the additional ships required to reroute trade with countries east of Suez. The estimated additional cost of Soviet chartering will be about \$8 million a month.

9. The USSR could minimize the increase in transportation costs by seeking new sources and markets, as it did during the Suez crisis of 1956. So far, however, the Soviets are rerouting their ships around Africa, and there is no evidence of a decision to cancel trade commitments.

10. In addition to increased transportation costs, the longer voyage around Africa will disrupt shipping schedules. Soviet shipments from the Black Sea to North Vietnam, which account for about 45 percent of North Vietnam's seaborne imports, will take 16 days longer around Africa (36 days compared with 20 days through the canal). This means that no Soviet dry cargo ships from the Black Sea will arrive in North Vietnam for a one-month period from mid-June to mid-July.

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